Public Hearing

Community Center
Bond Proposal

January 10, 2005

Work Under Contract
James F. Knott Construction

- Front Addition to the Municipal Building
- Renovation of the Upper Level of Municipal Building
- Computer Learning Center
- Projected Completion Date = April/May 2005

Planned Work Not Under Contract

- Renovation of Main Level of Municipal Building
- Two bids received in September
- Project will be re-bid due to low number of bids and timing issues with current construction

Funding Shortfall

- Work Under Contract
  - Potential Shortfall = about $1.5 million
- Planned Work Not Under Contract
  - Amount will depend on bid results
  - Wide variance between two prior bids
  - Average of Two Prior Bids = $815,000

Funding Options

- Use Reserve Funds
- Modify Operating Budget
- Bond

Bonding

- Cost of borrowing is low due to favorable interest rates
- Allows financial burden for large capital projects to be spread out over many years
- Project costs shared by current and future taxpayers

Bonding Scenarios

- Data provided by the Maryland Department of Housing and Community Development
- Assumptions:
  - Term of 20 years
  - Issuance costs = 3.25% of loan amount
  - Issuance costs would be added to loan amount
- Actual cost will depend on interest rates at time of borrowing

Scenario 1
$2.5 Million Bond

- First Year of Debt Service = $201,802
  - Payment decreases over life of bond

- Would likely be sufficient to pay for completion of work under contract and planned work not under contract

Scenario 2
$5.0 Million Bond

- First Year of Debt Service = $385,156
  - Payment decreases over life of bond
- Would allow for completion of work under contract and planned work not under contract
- Would likely provide for gym construction

Debt Service Options

- Reduce Operating Expenditures by Annual Debt Service Payment
- Levy Additional Property Tax to Generate Required Funding
- Some Combination of the Above

Property Tax Rate Yields

- Each $0.01 increase in tax rate generates approximately $100,000 for the City
- Each $0.01 increase in tax rate costs homeowner about $50 per year
  - Assumes assessed valuation of $500,000

Taxpayer Impact
$2.5 Million Bond

- Possible 3.1 percent (or $0.0202) tax rate increase
  - Assumes full funding through additional property tax levy

- Potential Monetary Impact = about $101/year
  - Assumes assessed valuation of $500,000

Taxpayer Impact
$5.0 Million Bond

- Possible 5.8 percent (or $0.0385) tax rate increase
  - Assumes full funding through additional property tax levy

- Potential Monetary Impact = about $193/year
  - Assumes assessed valuation of $500,000

Other Considerations

- Annual debt service will decrease over the life of the bond
- Property values likely to increase over life of the bond
  - Could impact tax rate needed to pay debt service

Next Steps

- Application deadline for State Bonding Program is January 28, 2005

- Decision Points
  - Should the City use bond financing?
  - If so, what is the appropriate level of bonding? Should the City bond only to complete planned work? Should the City bond for the gymnasium?